# Notes to the Consolidated Financial Statements

For The Financial Year Ended December 31, 2006

## 1- BACKGROUND

### - Establishment of the company

Arab Republic of Egypt National Telecommunication Organization (ARENTO) was established pursuant to Law No.153 of 1980. Effective from 27/3/1998 and pursuant to law No.19 of 1998, the legal form of (ARENTO) was amended after the revaluation of its assets on 26/3/1998 to become an Egyptian Joint Stock company under the name of Telecom Egypt Company (TE) subject to the provisions of the Company Law No. 159 of 1981 and Capital Market law No. 95 of 1992.

### - Purpose of the company

The main purpose of the company includes:

- Establishing and operating telecommunications networks.
- Providing telecommunications services.
- Operating and maintaining the networks, equipment and machinery necessary to provide the services.
- Executing projects necessary to accomplish its purposes.
- Cooperating with international companies and organizations to connect the Arab Republic of Egypt with the world.

By virtue of the approval of the company's Extra-Ordinary General Assembly held on 6/12/2005, the following activities were added to its objectives: "real estate investment for serving its purposes, and executing its projects and in order for the company to achieve its purposes, it is entitled to establish or participate in establishing new companies or existing companies operating in the same, complementary or related activities. Annotation to this effect was made in the commercial registry on 16/1/2006.

## 2- SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the parent company and subsidiaries under its control as it holds more than 50% of their capitals.

The following listing of subsidiaries is included in the consolidated financial statements:

| Subsidiaries name | Percentages share % |
|---|---|
| TE Data – S.A.E. | 95.04 % |
| The Egyptian Telecommunication Company for Information Systems (Xceed) – S.A.E | 97.66 % |
| Middle East Radio Communication ( MERC) – S.A.E. | 51.00 % |
| Centra Technologies – S.A.E. | 58.76 % |

## 3- SIGNIFICANT ACCOUNTING POLICIES APPLIED

### 3-1 Basis of preparing the consolidated financial statements

3-1-1 The financial statements are prepared under the historical cost basis and in accordance with the Egyptian Accounting Standards and in the light of the provisions of applicable Egyptian laws and regulations.

3-1-2 Consolidation basis

- Consolidated financial statements were prepared by combining similar items of assets, liabilities, equity, revenues and expenses stated in the financial statements of the parent company and its subsidiaries.
- The carrying amount of the parent company's investment in each subsidiary and the parent company's portion in the equity of each subsidiary are eliminated.
- All inter-group balances and transactions, and any material unrealized gains arising are eliminated.
- Minority interests in the net equity and net profits of subsidiaries controlled by the parent company was included in a separate item in the equity caption in the consolidated balance sheet, and it was calculated at the equivalent of the carrying amounts of their portion in the net assets of subsidiaries on the consolidated balance sheet date.

### 3-2 Foreign currency translation

The company and some of its subsidiaries maintain its books of accounts in Egyptian Pound. Transactions denominated in foreign currencies are recorded at the declared exchange rates at the date of transactions. At the consolidated financial position date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates declared by the banks dealing with the company and its subsidiaries. The exchange differences are recorded in the consolidated income statement for the year.

### 3-3 Financial statements translation for foreign operations

TE Data Jordan, wholly owned by TE Data Egypt – a subsidiary company – keeps its accounting records in Jordanian Dinar and Xceed Middle East FZ-LLC (Dubai), Wholly owned by The Egyptian Telecommunication Company for Information Systems (Xceed) – a subsidiary company – keeps its accounting records in AED. Assets and liabilities are translated to Egyptian Pound at the foreign exchange rate in effect at the date of the balance sheet date. Revenues and expenses are translated to Egyptian Pound at rates approximating to the foreign exchange rate ruling at the date of transactions. The share of the parent company in cumulative translation adjustments is recorded in a separate item under the caption of equity in the consolidated balance sheet.

### 3-4 Fixed assets and depreciation

Fixed assets are carried at cost less accumulated depreciation and any accumulated impairment losses and are depreciated using the straight-line method over the estimated useful lives of each type of assets as follows: -

| Description | Estimated Useful life (Years) |
|---|---|
| Buildings & constructions | 10 - 50 |
| Machinery & equipment | 5 - 20 |
| Means of transportation | 5 - 10 |
| Tools and supplies | 1 - 8 |
| Office furniture, fixtures and Information systems devices | 3 –16.67 |
| Decoration & fixtures | 5 |
| Fixtures on the Trunk Radio Network | 8 |

### 3-5 Projects in progress

This item represents the amounts incurred for projects in progress till being ready for the intended use in operations, then, they are transferred to fixed assets at its cost.

### 3-6 Investments in affiliates

The investments in affiliates in the consolidated financial statements shall be accounted for by applying the equity method. Under this method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The income statement of the investor includes the investor's share of the profit or loss of the investee.

If the investments is acquired and held with a view to its subsequent disposal in near future. In this case, investments in affiliates shall be accounted for by applying the cost method. Under this method, the investment fair value is adjusted by any impairment in this value, and the income statement of the investor includes income from investments up to the dividends received from the investee's after the acquisition date.

### 3-7 Available-for-sale investments

Available-for-sale investments are recorded at cost and re-measured as follows:

- The listed investments in the stock exchange are re-measured at the end of each financial period at fair value (market value). Gain or loss arising from a change in the fair value shall be included in the income statement.
- Investments that are not listed in the stock exchange are re-measured at cost or computed value, calculated in the light of an objective study of the company's recently approved financial statements by the companies issuing such notes. Any losses resulting from the decline in the market value or computed value of the investments compared with the cost are charged to the income statement for the year.
- The inactive investments (do not have listed price in an active market, or their fair value can not be reliably measured) are recorded at their acquisition cost. In case of impairment in the carrying amounts of these investments, the related investment is reduced by the impairment loss and charged to the income statement for the year for each investment.

### 3-8 Held for trading investments

Financial investments classified as held for trading are recorded initially at cost. At the end of each financial year, these investments are re-measured at their fair value (Market value). Gain or loss arising from a change in the fair value shall be included in the income statement.

### 3-9 Other assets and amortization

Other assets are non monetary assets that can be reliably estimated and from which future economic benefits are expected to flow to the company and are represented in:-

- Right of way, right of using of international circuits services and cables.
- Internet services license – TE Data.

These intangible assets are stated at cost less accumulated amortization and impairment losses and are amortized over (10-20) years provided that their useful lives should be within the term of concession and usufruct rights.

### 3-10 Inventory

Inventory is valued at the balance sheet date at the lower of cost or net realizable value. Cost is determined using the weighted average method.

- Work in progress is valued at cost at the latest production process reached.
- Finished goods are valued at the manufacturing cost or net selling value.

### 3-11 Accounts, notes receivable, debtors & other debit accounts

Receivables, debtors & other debit accounts are stated at nominal value less impairment loss for any amounts expected to be irrecoverable, and they are classified as current assets, however, amounts that are expected to be collected after more than one year are classified as long-term assets.

### 3-12 Impairment of assets

The carrying amounts of the Company's assets, other than inventory, note No.(3-10) and deferred tax assets note No.(3-23) are reviewed at each consolidated balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the necessary studies are prepared to estimate the asset's prospective recoverable amount.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### 3-13 Provisions

Provisions are recognized when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the obligation can be reasonably estimated. Provisions are reviewed at the consolidated balance sheet date and amended when necessary to reflect the best current estimate.

### 3-14 Borrowing cost

The borrowing costs are recognized in the income statement as an expense as incurred.

### 3-15 Grants

Grants are recorded as deferred revenues and should be recognized as income over the periods necessary to match them with the related costs, on a systemic basis.

### 3-16 Trading Creditors & Other Payables

Trading creditors and other payables are stated at the nominal value, also liabilities (payables) are stated at the value which will be paid in the future and this is against received goods and services.

### 3-17 Revenue recognition

- Revenues from sales of services are recognized when services are rendered to the customers.
- Revenues from telephone sets & directories sales are recognized when goods are delivered to customers and invoices are issued.

### 3-18 Expenses

All operating expenses recorded including general & administraive expenses are recognized in the income statement in the financial period when incurred.

### 3-19 End of service indemnity

The company contributes to Social Insurance Authority for the benefit of its personnel in pursuance to the Social Insurance Authority law No. 79 of 1975 and its amendments. These contributions are recorded in the "Wages and Salaries account" in addition to the early retirement scheme applied from 1/9/2001 (Note No. 29).

### 3-20 Capital lease agreements

The accrued lease payments, repair and maintenance expenses of leased assets under the capital leasing agreements are recognized as an expense in the income statement for the year. At the end of the lease agreement if the company exercised its rights to purchase the leased assets. These assets are recorded as fixed assets and their costs are determined at the amount of the purchase bargain option stated in the lease agreement and depreciated over the remaining estimated useful lives.

### 3-21 Accounting estimates

The preparation of the financial statements according to the Egyptian Accounting Standards require that the management use estimates and assumptions that affect the values of the assets and liabilities and the revenues and expenses during the financial periods and years. The actual results may be different from those estimates.

### 3-22 Reserves

- Legal Reserve

According to the company's Article of Associations, 5% of the net profit is set aside to form a legal reserve. The transfer to legal reserve cease once the reserve reach 50% of the company's paid in capital, however, if the reserve falls below the defined level (50% of the company's paid in capital), then the company is required to resume setting aside 5% of the net profit.

- Fair Value Reserve

When re-measured investments are sold the Fair Value reserve related is transferred to retained earnings.

### 3-23 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is measured using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### 3-24 Transactions with related parties

Transactions with related parties that are undertaken by the company in the course of its ordinary transactions are recorded according to the conditions laid down by the company's management on the same bases of dealing with third party.

### 3-25 Cash flow statement

Cash flow statement is prepared according to the direct method. Cash & cash equivalents comprise cash balances, time deposits which do not exceed three monthes and bank overdrafts that are repayable on demand and form an integral part of the company's cash management and they are included as a component of cash equivalents for the purpose of the statement of cash flows.

## 4- FIXED ASSETS (net)

| | Land LE (000) | Buildings & constructions LE (000) | Machinery & equipment LE (000) | Means of transportation LE (000) | Tools & supplies LE (000) | Office furniture & fixtures LE (000) | Decoration & fixtures LE (000) | Fixtures on trunk radio network LE (000) | Total LE (000) |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance as at 1/1/2006 | 2 336 291 | 16 541 885 | 16 643 199 | 101 286 | 60 752 | 735 972 | 449 | – | 36 419 834 |
| Adjustment to the opening balance | – | – | ( 18 094) | – | – | ( 82) | – | – | ( 18 176) |
| Additions for the year | 112 023 | 529 094 | 1 270 539 | 1 843 | 2 502 | 189 765 | 617 | 151 | 2 106 534 |
| Disposals for the year | ( 4 455) | – | ( 7 464) | ( 2 439) | ( 6 959) | ( 1 581) | ( 129) | – | ( 23 027) |
| Reclassification | – | ( 9 146) | – | – | – | ( 2 655) | 11 801 | – | – |
| Translation differences | – | – | ( 17) | – | – | ( 18) | ( 4) | – | ( 39) |
| **Balance as at 31/12/2006** | 2 443 859 | 17 061 833 | 17 888 163 | 100 690 | 56 295 | 921 401 | 12 734 | 151 | 38 485 126 |
| **Depreciation & Impairment** | | | | | | | | | |
| Accumulated depreciation as at 1/1/2006 | – | 5 553 416 | 8 648 516 | 79 297 | 33 523 | 271 368 | 125 | – | 14 586 245 |
| Adjustments to the opening balance | – | – | ( 499) | – | – | ( 329) | – | – | ( 828) |
| Depreciation for the year | – | 934 875 | 1 736 326 | 10 235 | 4 698 | 152 599 | 2 471 | 5 | 2 841 209 |
| Accumulated depreciation of disposal | – | – | ( 5 244) | ( 1 623) | ( 6 958) | ( 1 384) | ( 80) | – | ( 15 289) |
| Reclassification | – | ( 229) | – | – | – | ( 664) | 893 | – | – |
| Translation differences | – | – | ( 3) | – | – | ( 2) | ( 1) | – | ( 6) |
| **Balance of accumulated depreciation as at 31/12/2006** | – | 6 488 062 | 10 379 096 | 87 909 | 31 263 | 421 588 | 3 408 | 5 | 17 411 331 |
| **Carrying amounts as at 31/12/2006** | 2 443 859 | 10 573 771 | 7 509 067 | 12 781 | 25 032 | 499 813 | 9 326 | 146 | 21 073 795 |
| **Carrying amounts as at 31/12/2005** | 2 336 291 | 10 988 469 | 7 994 683 | 21 989 | 27 229 | 464 604 | 324 | – | 21 833 589 |

- Cost of fixed assets included an amount of LE 1 563 million relating to fully depreciated assets still in use.
- Additions of land for the year include an amounted LE 109 084 K represents cost of two pieces of land in the satellite station in Al-Maadi registered under the company's name and not included in the company's assets evaluation schedules for year 1998. This amount has been added to the reserves in the company's shareholders equity.

**Depreciation for the year are charged as follows:-**

| | LE (000) |
|---|---|
| Operating expenses | 2 685 502 |
| General & administrative expenses | 154 869 |
| Selling & distribution expenses | 838 |
| | 2 841 209 |

## 5- PROJECTS IN PROGRESS

| | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|
| **Telecom Egypt - Parent** | | |
| Land | 4 876 | 6 528 |
| Buildings and constructions | 194 725 | 124 819 |
| Machinery and equipment | 448 265 | 442 967 |
| Means of transportation | 301 | 387 |
| Tools and supplies | 62 | 115 |
| Office furniture and fixtures | 16 580 | 39 441 |
| Advance payments | 330 573 | 495 523 |
| Letters of credit | 3 887 | 29 312 |
| | 999 269 | 1 139 092 |
| **TE Data – a subsidiary company** | | |
| Land | 1 300 | – |
| Buildings and constructions | 152 | – |
| Advance payments | 9 867 | 7 705 |
| **TE Information Technology – a subsidiary company** | | |
| Advance payments | 325 | – |
| | 1 010 913 | 1 146 797 |

## 6- LONG TERM INVESTMENTS

### 6-1 Investments in affiliates

| | 31/12/2006 | | 31/12/2005 | |
|---|---|---|---|---|
| | Participation% | LE (000) | Participation% | LE (000) |
| Vodafone Egypt * | 44.66 | 6 507 462 | 25.50 | 1 525 465 |
| Nile On Line (NOL) | 27.27 | 12 830 | 27.27 | 12 688 |
| Wataneya for Telecommunication | 50.00 | 125 | 50.00 | 125 |
| Consortium Algerien de Tele – communications (CAT) ** | 33.00 | – | 33.00 | 133 |
| International Telecommunication Consortium Limited. (ITCL) | 50.00 | 54 | 50.00 | 54 |
| Egypt Trust | 25.00 | 2 500 | 25.00 | 1 000 |
| | | 6 522 971 | | 1 539 465 |

* Market value of investments in Vodafone Egypt according to the Egyptian Stock Exchange prices on December 31, 2006 amounts to L.E 10 147 852 K.

** Investment in Consortium Algerien de Telecommunications (CAT) is shown a Nil balance as the company realised a net loss exceeds the carrying amount of this investment.

### 6-2 Available for sale investments

| | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|
| Participations in foreign Satellite companies & organizations | 26 683 | 25 245 |
| Investments in other local companies | 64 655 | 69 952 |
| | 91 338 | 95 197 |

**Investment In Vodafone – Egypt**

- The investments in Vodafone Egypt as of 31/12/2006 represent the ownership of 107 180 529 shares representing 44.66% of Vodafone Egypt shares.

- During the 4th quarter of 2006 the company purchased 45 980 529 shares of Vodafone Egypt shares. The purchase of these shares was financed by a syndicate loan granted from local banks with an amount of L.E 4 525 000 K, the loan balance as of 31/12/2006 amounted to L.E. 3 495 000 K (Note No.14) while the remaining part of financing the purchase operation of these shares was made from the company's own resources.

- On November 8, 2006 a new strategic co-operation agreement was signed between Vodafone- Egypt Company and Telecom Egypt Company by virtue of which the company shall enjoy a prolongation of the term of the agreement between the two companies, and shall continue to provide international telecommunication services.

## 7- LONG-TERM OTHER RECEIVABLES

These balances are represented in the following:

| | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|
| – The amounts due from National-Telecommunication Regulatory Authority for the license fees paid to the said Authority for the third operator after waiver of this license by the third operator after warier of this license (Note No. 30). | 1 080 000 | 1 600 000 |
| **Less:** | | |
| – The current portion to be collected during next year recorded under "debtors and other debit accounts" (Note No. 11). | 520 000 | 520 000 |
| | 560 000 | 1 080 000 |
| – The interests balances for the period from 1/4/2005 till the balance sheet date, that shall be settled by (NTRA) for the license's charges paid to (NTRA) for the third mobile phone network as a part of the last installment which is payable on 31/3/2009 (Note No. 30). | 210 000 | 90 000 |
| – Payments made on behalf of consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria. | 366 892 | 221 585 |
| – Amounts due from the employees in consideration of the company's shares floated in public offering and purchased and distributed by the company to its employees. The value of these purchased shares shall be paid by employees over 24 months starting from 1/1/2006. | 94 490 | 201 987 |
| **Less:** | | |
| The current portion to be collected during next year which was recorded under "debtors and other debit accounts" (Note No. 11). | 94 490 | 106 799 |
| | – | 95 188 |
| – Due from Loyalty Fund Grant (Note No. 29) | 26 128 | 33 078 |
| **Less:** | | |
| The current portion to be collected during next year from Loyalty Fund Grant (Note No.11) | 6 724 | 6 950 |
| | 19 404 | 26 128 |
| | 1 156 296 | 1 512 901 |

## 8- OTHER ASSETS (net)

| | Right of way (BRITAR) LE (000) | Right of way (ALITAR) LE (000) | Right of way (Flag cable) LE (000) | Usufruct for land occupied by TE LE (000) | Right of way (SMW) LE (000) | Right of using (ROU) LE (000) | Internet license LE (000) | Total LE (000) |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Cost as at 1/1/2006 | 1 720 | 48 755 | 95 910 | 1 | 131 566 | 48 906 | 20 189 | 347 047 |
| Adjustment to the opening balance | – | – | – | – | ( 100) | – | – | ( 100) |
| Additions for the year | – | – | – | – | 86 700 | 56 556 | – | 143 256 |
| Disposals for the year | – | – | – | – | ( 42 024) | – | – | ( 42 024) |
| Translation differences | – | – | – | – | – | – | ( 4) | ( 4) |
| **Balance as at 31/12/2006** | 1 720 | 48 755 | 95 910 | 1 | 176 142 | 105 462 | 20 185 | 448 175 |
| **Accumulated amortization & impairment losses** | | | | | | | | |
| Balance as at 1/1/2006 | 731 | 21 352 | 60 362 | – | 95 708 | 22 109 | 20 016 | 220 278 |
| Adjustment to the opening balance | – | – | – | – | ( 35) | – | – | ( 35) |
| Amortization during the year | 172 | 2 438 | 9 606 | – | 22 933 | 5 360 | 20 | 40 529 |
| Accumulated disposals amortization | – | – | – | – | ( 35 634) | – | – | ( 35 634) |
| Impairment on other assests | – | – | – | – | – | 3 848 | – | 3 848 |
| Translation differences | – | – | – | – | – | – | ( 1) | ( 1) |
| **Balance as at 31/12/2006** | 903 | 23 790 | 69 968 | – | 82 972 | 31 317 | 20 035 | 228 985 |
| **Carrying amounts as at 31/12/2006** | 817 | 24 965 | 25 942 | 1 | 93 170 | 74 145 | 150 | 219 190 |
| **Carrying amounts as at 31/12/2005** | 989 | 27 403 | 35 548 | 1 | 35 858 | 26 797 | 173 | 126 769 |

## 9- INVENTORY

| | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|
| Spare parts | 184 035 | 158 774 |
| Materials supplies | 1 116 | 356 |
| Computers & Pc's components | 9 199 | 7 838 |
| Others – project cables and supplies | 311 627 | 277 737 |
| Finished goods | 4 446 | 149 |
| Telephone sets and directories | 39 216 | 42 154 |
| Consignment goods | 552 | 878 |
| | 550 191 | 487 886 |
| **Add:** | | |
| Letters of credit | 47 737 | 6 890 |
| | 597 928 | 494 776 |

## 10- TRADE & NOTES RECEIVABLE

| | Note No. | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|---|
| Governmental sector | | 347 881 | 294 679 |
| Private sector | | 2 783 515 | 2 529 850 |
| Foreign telecommunication companies and organizations | | 755 004 | 902 257 |
| | | 3 886 400 | 3 726 786 |
| **Less:** | | | |
| Impairment loss on trade receivables | (18) | 889 591 | 1 168 062 |
| | | 2 996 809 | 2 558 724 |
| Notes receivable | | 1 000 | 949 |
| | | 2 997 809 | 2 559 673 |

## 11- OTHER RECEIVABLES

| | Note No. | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|---|
| Suppliers – debit balances | | 90 961 | 56 716 |
| Deposits with others | | 7 667 | 6 957 |
| Employees' loans | | 1 128 | 1 335 |
| Customs Authority - deposits | | 3 043 | 3 047 |
| Accrued revenues | | 2 932 | 8 665 |
| Tax Authority- withholding tax | | 75 752 | 110 089 |
| Sales Tax Authority - advances | | 378 115 | 196 656 |
| Employees loyalty grant | (7) | 6 724 | 6 950 |
| Other debit accounts* | | 1 370 367 | 1 924 873 |
| | | 1 936 689 | 2 315 288 |
| **Less:** | | | |
| Impairment loss on other receivables | (18) | 281 394 | 154 553 |
| | | 1 655 295 | 2 160 735 |

***Other debit accounts include the following amounts: -**

| | | | |
|---|---|---|---|
| - The current portion to be collected within one year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication. | (7) | 520 000 | 520 000 |
| - The current portion to be collected during next year for the balances due from the employees for the company's shares distributed to them and paid by the company. | (7) | 94 490 | 106 799 |
| - Payments on the account of corporate tax. | | 285 996 | 1 002 089 |
| | | 900 486 | 1 628 888 |

## 12- INVESTMENTS HELD FOR TRADING

Held for trading investments amounted to LE 123 090 K represented in the following:

| | 31/12/2006 LE (000) |
|---|---|
| **TE Data a Subsidiary Company** | |
| Value of 1 043 817 unit of Commercial International Bank Investment Fund– Osoul Fund with price LE 116.91 for each unit at balance sheet date. | 122 033 |
| **TE Information Technology – a Subsidiary Company** | |
| Value of 9 067 unit of Commercial International Bank Investment Fund – Osoul Fund with price LE 116.61 for each unit at balance sheet date. | 1 057 |
| | 123 090 |

## 13- CASH ON HAND AND AT BANKS

| | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|
| Banks- time deposits | 491 798 | 668 147 |
| Banks- current accounts | 78 346 | 66 858 |
| Cash on hand | 18 701 | 33 011 |
| | 588 845 | 768 016 |

Time deposits at 31/12/2006 include the following:-

- An amount of LE 24 610 K blocked in favor of some banks as a guarantee for the letters of credit and letters of guarantee granted to the company (against LE 11 070 K at 31/12/2005).

## 14- LOANS AND FACILITIES

| Description | Loan Currency | Long term loan installments due within one year LE (000) | Long term loan installments due within more than one year LE (000) | Balance as of 31/12/2006 LE (000) | Balance as of 31/12/2005 LE (000) | Annual Interest Rate % | Repayment schedule |
|---|---|---|---|---|---|---|---|
| **Telecom Egypt - the parent** | | | | | | | |
| Local banks loans | L.E. | 8 919 | – | 8 919 | 21 500 | Caibor + 2.55 % | Semi-annual installments ending on 24/9/2007 |
| Local banks loans (Vodafone loan Note No.6) | L.E. | 543 000 | 2 952 000 | 3 495 000 | – | Average rate of deposits & loans (Corridor) +1% | Unequal semi-annual installments ending on 31/3/2011 |
| **Total local loans** | | 551 919 | 2 952 000 | 3 503 919 | 21 500 | | |
| Governmental Loans | L.E. | – | – | – | 22 | 8% | |
| Governmental Loans | U.S.$ | 89 977 | 651 013 | 740 990 | 796 957 | 4% | Semi annual / annual installments ending on 24/1/2014 |
| Governmental Loans | SK | 1 476 | – | 1 476 | 3 341 | 0.15% + agency commission | Semi annual installments ending on 31/12/2007 |
| Governmental Loans | EURO | 6 958 | 22 913 | 29 871 | 33 507 | 4 - 6.37% | Semi annual installments ending on 29/12/2012 |
| **Total Governmental Loans** | | 98 411 | 673 926 | 772 337 | 833 827 | | |
| Foreign loans | J.Y | 24 093 | 53 312 | 77 405 | 102 777 | 3 -3.5% | Semi annual installments ending on 20/3/2012 |
| Foreign loans | EURO | 150 060 | 822 999 | 973 059 | 1 001 610 | 0.75 - 8.2% | Semi annual installments ending on 30/6/2036 |
| Foreign loans | L.D | – | – | – | 10 171 | 3.5% | |
| **Total foreign loans** | | 174 153 | 876 311 | 1 050 464 | 1 114 558 | | |
| Foreign suppliers' facilities - local | L.E. | – | – | – | 427 | 3% | |
| Foreign suppliers' facilities - foreign | EURO | 25 821 | 3 202 | 29 023 | 144 104 | 3.18 - 5.50% | Annual installments ending on 1/12/2008 |
| Foreign suppliers' facilities - foreign | J.Y | 40 347 | – | 40 347 | 96 892 | 2.75% | Semi annual installments ending on 14/12/2007 |
| **Total foreign suppliers' facilities** | | 66 168 | 3 202 | 69 370 | 241 423 | | |
| | | 890 651 | 4 505 439 | 5 396 090 | 2 211 308 | | |

- Foreign suppliers' facilities in Euro include LE 3 800 K equivalent to Euro 503 K against letters of guarantee issued by National Bank of Egypt in favour of Siemens as a guarantee for this facility settlement.
- The available unused balance of Foreign Loans and Facilities at 31/12/2006 amounting to L.E. 26 868 K.

## 15- SUPPLIERS & NOTES PAYABLE

| | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|
| Suppliers - local | 145 837 | 93 127 |
| Suppliers - foreign | 33 408 | 7 504 |
| Notes payable | 2 473 | 3 137 |
| | 181 718 | 103 768 |

## 16- CREDITORS AND OTHER CREDIT ACCOUNTS

### 16-1 Creditors and other credit accounts (current)

| | Note No. | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|---|
| Tax Authority | | 151 768 | 80 566 |
| Deposits from others | | 661 859 | 605 848 |
| Fixed assets creditors | | 409 288 | 389 652 |
| Accrued interest | | 113 155 | 73 931 |
| Accrued expenses | | 187 864 | 216 128 |
| Social Insurance Authority | | 16 880 | 18 987 |
| Clients – credit balances | | 227 924 | 215 372 |
| Credit balance for social, cultural and sportive activities | | 140 114 | 119 214 |
| Deferred revenues* | | 313 279 | 266 254 |
| Other credit accounts | | 391 426 | 363 275 |
| Tax Authority – income tax | | 23 239 | 260 720 |
| Current income tax for the year | | 413 299 | 371 334 |
| | | 3 050 095 | 2 981 281 |
| **Less:** | | | |
| Tax payments due after one year | (16-2) | 54 704 | 54 704 |
| | | 2 995 391 | 2 926 577 |

* The deferred revenues amounting to 313 279 K at December 31, 2006 represents the grants presented by the USAID to finance some of the company's projects, as well as the grants presented by the projects management of Marine Cables for the construction of a building in Alexandria and the right of way for marine cables after deducting the accumulated amortization at December 31, 2006.

### 16-2 Creditors and other credit accounts (long-term)

Creditors and other long-term accounts represent:-

| | Note No. | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|---|
| **Telecom Egypt – parent company** | | | |
| Tax payment due after one year | (16-1) | 54 704 | 54 704 |
| Telecom Egypt- parent company share in Consortium Algerien de Telecommunications loss | | 108 356 | – |
| **TE Information Technology – a subsidiary Company** | | | |
| The additional retirement compensations due to the company's employees | | 2 912 | 1 755 |
| | | 165 972 | 56 459 |

## 17- PROVISIONS

| Provision for contingent liabilities, claims and others | Balance as of 1/1/2006 LE (000) | Charged to the income statement LE (000) | Used during the year LE (000) | Release of unused provisions LE (000) | Balance as of 31/12/2006 LE (000) |
|---|---|---|---|---|---|
| Tax provision | 1 115 598 | 617 | ( 527 656) | ( 215 471) | 373 088 |
| Claims provision | 140 055 | – | ( 21 254) | ( 10 660) | 108 141 |
| | 1 255 653 | 617 | ( 548 910) | ( 226 131) | 481 229 |

## 18- IMPAIRMENT LOSS OF ASSETS

| | Balance as of 1/1/2006 LE (000) | Charged to the income statement LE (000) | Used during the year LE (000) | Reverse of impairment loss of assets LE (000) | Balance as of 31/12/2006 LE (000) |
|---|---|---|---|---|---|
| On trade receivables | 1 168 062 | 33 282 | – | ( 311 753) | 889 591 |
| **On other receivables** | 154 553 | 126 860 | ( 19) | – | 281 394 |
| *** Write-down in inventory (Obsolete & slow moving items)** | 17 040 | 1 126 | – | – | 18 166 |
| | 1 339 655 | 161 268 | ( 19) | ( 311 753) | 1 189 151 |

* Write-down in inventory balances is netted against their related type of inventory balances.

## 19- CAPITAL

The company's authorized, issued and paid in full capital is LE 17 112 149 K, represented in 171 121 490 shares at a par value of LE 100 each. All shares are fully owned by the Egyptian government.

On September 21, 2005, the Extra-ordinary General Meeting resolved the following:-

- Decrease of issued capital by a net amount of LE 41 433 K representing the value of lands transferred to Ministry of Communication & Information Technology by LE 71 250 K and the value of land reverted to for TE as a result of the amendment of the total land area near the satellite station in Maadi amounting to LE 29 817 K.

- Decrease of the par value per share from LE 100 to LE 10.

Accordingly, the company's issued and fully paid capital has become LE 17 070 716 K represented in 1 707 071 600 shares at a par value of LE 10 each and annotation was made to this effect in the Commercial Register on 24/11/2005.

Thus, Egyptian Government owned 80% after floating 20% of company's shares in public offering in December 2005.

## 20- RESERVES

| | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|
| Legal reserve | 466 875 | 373 766 |
| Revaluation reserve of available for sale investments | 6 814 | 6 814 |
| General reserve | 3 772 713 | 3 018 084 |
| Capital reserve | 18 110 | 18 110 |
| | 4 264 512 | 3 416 774 |

General reserve amounted to LE 3 772 713 K at 31/12/2006 representing the dividends transferred to the general reserve for years 99/2000 till 2005 after deducting LE 1 618 710 K which represent the adjustments on the land during year 2005 & 2006.

## 21- BONDS LOAN

In February 2005, the Company issued 20 million nominal marketable bonds not convertible into shares at a par value of L.E. 100 each for period of (5) years. These bonds were offered for public subscription and issued in two tranches as follows:

1- The first tranche shall be 50% of the bonds at a fixed annual interest equal 10.95%to be paid quarterly.
2- The second tranche shall be the other 50% of the bonds at a variable annual interest equal 0.7% plus the discount rate of the Central Bank of Egypt to be paid quarterly.

The purpose of issuing these bonds is partial settlement of long-term loans and bank overdraft accounts in local currency.

The bonds installments due during 2007 amounted LE 400 million has been classified in the balance sheet as current liabilities.

## 22- DEFERRED TAX

**Deferred Tax Assets and Liabilities**

| | Assets | Liabilities | Assets | Liabilities |
|---|---|---|---|---|
| | 31/12/2006 | | 31/12/2005 | |
| | LE (000) | LE (000) | LE (000) | LE (000) |
| Fixed assets | – | (232 031) | – | (169 916) |
| Other assets | – | (7 564) | – | (486) |
| Inventory | 3 616 | – | 3 391 | – |
| Trade and other receivables | 33 701 | – | 25 793 | – |
| Provisions | 58 318 | – | 50 101 | – |
| Accrued liabilities | 27 781 | – | 29 845 | – |
| **Total deferred tax assets (liability)** | 123 416 | (239 595) | 109 130 | (170 402) |
| **Net deferred tax liability** | – | 116 179 | – | 61 272 |

## 23- SALES OF SERVICES

| | 2006 LE (000) | 2005 LE (000) |
|---|---|---|
| **Retail Services:** | | |
| Connections | 183 230 | 350 834 |
| Subscriptions | 1 596 111 | 1 315 314 |
| **Total** | 1 779 341 | 1 666 148 |
| Voice: | | |
| Local | 1 969 324 | 1 591 518 |
| Long distance | 382 408 | 413 806 |
| Fixed to international | 371 000 | 405 685 |
| Fixed to mobile international | 1 042 511 | 1 049 454 |
| **Total** | 3 765 243 | 3 460 463 |
| Internet & Data | 184 408 | 133 515 |
| Others | 849 522 | 828 547 |
| **Total** | 1 033 930 | 962 062 |
| **Total Retial** | 6 578 514 | 6 088 673 |
| **Wholesale:** | | |
| Domestic: | | |
| Mobile to fixed interconnection | 236 321 | 208 368 |
| Others | 236 277 | 149 960 |
| | 472 598 | 358 328 |
| International | | |
| Mobile to international | 800 698 | 648 371 |
| Incoming international call | 1 548 325 | 1 284 333 |
| | 2 349 023 | 1 932 704 |
| **Total wholesale** | 2 821 621 | 2 291 032 |
| **Total revenues from sales of services** | 9 400 135 | 8 379 705 |

* Comparative figures of sales of services were reclassified to confirm with the current year classification.

## 24- INTERCONNECTION FEES

| | 2006 LE (000) | 2005 LE (000) |
|---|---|---|
| Fixed to mobile interconnection fees | 887 711 | 779 851 |
| Fixed calls for internet & audio text companies fees | 164 706 | 190 004 |
| Dues against outgoing international calls | 296 289 | 276 454 |
| Dues against outgoing international telegram & telex | 437 | 723 |
| | 1 349 143 | 1 247 032 |

## 25- OTHER OPERATING COSTS

| | 2006 LE (000) | 2005 LE (000) |
|---|---|---|
| Salaries | 751 731 | 751 639 |
| Compulsory social security contributions | 104 644 | 104 210 |
| Employees' vacations | 214 | 88 239 |
| Electricity & water | 10 776 | 11 825 |
| Stationary & printed materials | 53 887 | 67 462 |
| Transportation cost | 15 013 | 17 960 |
| Business telephone cost | 41 522 | 25 455 |
| Rent | 4 230 | 3 407 |
| Frequencies & license charge (NTRA) | 165 460 | 44 753 |
| Others | 103 923 | 76 625 |
| | 1 251 400 | 1 191 575 |

## 26- GENERAL & ADMINISTRATIVE EXPENSES

| | 2006 LE (000) | 2005 LE (000) |
|---|---|---|
| Salaries | 435 744 | 466 508 |
| Compulsory social security contributions | 36 267 | 35 908 |
| End of service compensation-Early retirement program | 3 889 | 8 607 |
| Employees' vacations | 227 | 49 979 |
| Depreciation | 154 869 | 115 103 |
| Training | 27 368 | 34 496 |
| Bad debts | 843 | 245 |
| Tax and customs duty | 101 265 | 76 291 |
| Bank charges & commissions | 22 297 | 11 553 |
| Advertising | 35 852 | 35 432 |
| Others | 187 509 | 128 116 |
| | 1 006 130 | 962 238 |

## 27- SELLING & DISTRIBUTION EXPENSES

| | 2006 LE (000) | 2005 LE (000) |
|---|---|---|
| Salaries | 111 554 | 105 952 |
| Compulsory social security contributions | 14 315 | 13 748 |
| Employees' vacations | 55 | 11 662 |
| Depreciation | 838 | 1 117 |
| Tax and customs duty | 3 294 | 4 238 |
| Others | 142 593 | 99 326 |
| | 272 649 | 236 043 |

## 28- OTHER REVENUES / (EXPENSES)

| | 2006 LE (000) | 2005 LE (000) |
|---|---|---|
| Donations | (9 804) | (7 268) |
| Sundry revenues* | 284 245 | 181 247 |
| Prior years' income / (expenses) | (23 495) | (62 195) |
| | 250 946 | 111 784 |

* Sundry revenues for the year 2006 include the following:

| | LE (000) |
|---|---|
| - Accrued interest for year 2006 for the amounts paid to NTRA | 120 000 |
| - Deferred revenues amortization for year 2006 | 46 679 |

## 29- EARLY RETIREMENT SCHEME

- The company's board of directors approved in its meeting dated May 9, 2001 an early retirement scheme for its employees. The scheme was implemented during the twelve months ended 31/8/2002 (First phase). The cost of these compensations is financed by a Bank loan granted to the company. The principal loan will be repaid from employees' Loyalty Fund and the interest will be charged to the company as expenses when incurred.

- The company's board of directors approved in its meetings dated March 20, 2002 and December 30, 2002 to finance an amount of LE 65 000 K and LE 35 000 K respectively for the employees' Loyalty Fund to facilitate financing the retired employees' compensations (the second and third phases), provided that these amounts should be refunded from employees Loyalty Fund upon their legal early retirements. The amount of LE 73 872 K was refunded as of December 31, 2006

- On January 15, 2004 the employees' Loyalty Fund was registered in the Register of the Egyptian Private Social Insurance Funds and the grant accounts was transferred to the account of Loyalty Fund which will pay these balances to the company on the dates of the legal early retirement of the employees.

- The actual compensations charged to the income statement and paid to the early retired employees' for the year amounted to LE 3 889 K, representing the amount due on the remaining period till the legal age of retirement.

- The amounts to be refunded during a year (current portion) amounted to LE 6 724 K and the amount to be refunded starting from January 2008 and up to the year 2011 (the long term portion) is LE 19 404 K. (Note No. 7).

## 30- WAIVER OF THE LICENSE OF THE THIRD MOBILE OPERATOR

- The company obtained a license to establish the third mobile phone operator against an amount of LE 1 975 million paid to the National Telecommunication Regulatory Authority (NTRA). However, due to the current recession in the market, the company decided to waive its right in this license and recover the license fees paid to (NTRA).

- Pursuant to the memorandum of understanding dated December 20, 2003 concluded between Telecom Egypt and both Vodafone Egypt Co. and Mobinil, the parties agreed that the two mobile operators would pay to (NTRA) cash installments in order to obtain the frequency band 1800 MHTZ previously granted to Telecom Egypt and waived to the two mobile operators.

- On January 27, 2005 an agreement was made between Telecom Egypt and the National Telecommunication Regulatory Authority (NTRA) whereby the company committed itself not to apply for obtaining a license to build and operate a mobile phone network in Egypt using the (G.S.M) system with the frequency band of 1 800 MHTZ till November 30, 2007 against the commitment of (NTRA) to pay LE 1 975 million – previously paid by Telecom Egypt to (NTRA) – to Misr Banque according to the terms of the transfer of right dated 22/12/2003, in addition to the payment of LE 480 million to the company after the completion of the payment of LE 1 975 million and LE 25 million due to (NTRA).

  The restriction mentioned above does not prohibit or prejudice the right of the company to apply to (NTRA) for obtaining a license to provide mobile telecommunication services of the third generation (G3) or any other higher or equal mobile telecommunication services or infra-structure whether during or after the restriction period.

- On April 2005, February 2006 the first and the second installment due from the National Telecommunication Regulatory Authority (NTRA) amounting to LE 375 million & 520 million were collected and the balance due from the National Telecommunication Regulatory Authority (NTRA) amounted to LE 1 080 million plus the amount of LE 480 million and the remaining amounts will be collected on three equal annual installments amounting to LE 520 million each. The last installment shall fall due on March 31, 2009.

- On February 2007, part of the third installment due from the National Telecommunication Regulatory Authority (NTRA) amounting to LE 320 million was collected.

## 31- EARNING PER SHARE FOR THE PERIOD

| | 2006 | 2005 |
|---|---|---|
| Net profit for the period after minority interest (LE 000) | 2 426 877 | 2 097 275 |
| **Less:** | | |
| Employees' profit share (LE 000) | 132 772 | 94 837 |
| Board remuneration (LE 000) | 3 000 | 2 500 |
| | 2 291 105 | 1 999 938 |
| **Less:** | | |
| The parent company's share in employees & Board of directors' share of subsidiaries dividends | 2 391 | 2 062 |
| | 2 288 714 | 1 997 876 |
| Average number of outstanding shares during the year | 1 707 071 600 | 1 710 075 492 |
| **Earning per share for the year (LE / share)** | 1.34 | 1.17 |

## 32- STATEMENT OF CASH FLOW

| | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|
| Cash and cash equivalents (as per balance sheet) | 588 845 | 768 016 |
| **Less:** | | |
| Banks overdraft | 77 762 | 158 474 |
| Blocked time deposits | 24 610 | 11 070 |
| **Cash and cash equivalents (as per statement of cash flows)** | 486 473 | 598 472 |

## 33- CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts until December 31, 2006 amounted to LE 105 million (includes LE 13 million the uncalled installments of investees' of share capital) against LE 96 million at 31/12/2005 (includes LE 15 million the uncalled installments of investees' of share capital ). These commitments are expected to be settled in the following financial year except the uncalled installments of investees' share capital, which shall be settled when required by the Board of Directors for those investees companies.

## 34- CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of December 31, 2006 the company had the following contingent liabilities:-

| | 31/12/2006 LE (000) | 31/12/2005 LE (000) |
|---|---|---|
| - Letters of guarantee issued by banks on behalf of the company | 52 207 | 8 270 |
| - Letters of credit | 264 801 | 452 998 |

## 35- TAXATION

### 35-1 Corporate tax

Years till 26/3/1998

- This period covers all the years up till National Telecommunication Authority (NTA) has been transformed into Telecom Egypt. Tax inspection was made, and all disputes were settled except for certain amounts for which related provisions were formed to meet the disputes tax liabilities.

Financial years from 27/3/1998 till 31/12/2004

- Tax inspection was made till the period ended 31/12/2004 and the company was notified by Tax Forms No. (18)&(19) corporate profit tax and it agreed on the taxable income and the differences were paid.

Financial year from 1/1/2005 till 31/12/2005

- Tax return was submitted on due dates according to tax law No. 91 for year 2005.

### 35-2 Sales Tax

- Tax inspection was made till 31/12/2005 and all due taxes were settled.

### 35-3 Salary Tax

- Tax inspection and assessment were made till 31/12/2000 and all due tax were settled.
- Tax inspection for the period from 1/1/2001 till 31/12/2002 is currently being undertaken, and the company formed a provision on an estimated basis to meet the liabilities that may result from tax inspection.

### 35-4 Stamp tax

-Tax inspection for the period from 27/3/1998 to 31/12/2000 was made and the company objected on the disputed itemes on the due dates and the related provisions were formed to meet the dispute tax liabilities.

- Tax inspection for the period from 1/1/2001 till 31/12/2005 is currently being undertaken.

## 36- Related party transactions with affiliates

There are transactions between the Company and its affiliates. The most important transactions during the year and related balances on the balance sheet date are stated as follows:

| | Amount of transactions recorded in the income statement LE 000 | Nature of transaction during the year | Transaction volume during the year | | Balance as of 31/12/2006 | | Balance as of 31/12/2005 | |
|---|---|---|---|---|---|---|---|---|
| | | | Debit LE 000 | Credit LE 000 | Debit LE 000 | Credit LE 000 | Debit LE 000 | Credit LE 000 |
| **Debit balance included in account receivables** | | | | | | | | |
| Nile On Line (NOL) | – | International leased lines | – | 846 | 5 354 | – | 6 200 | – |
| Nile On Line (NOL) | 5 294 | Local leased lines | 5 823 | 5 814 | 9 | – | – | – |
| Vodafone Egypt | 488 407 | Fixed to mobile interconnection and audio text fees due to affiliates | 774 468 | 737 202 | 36 952 | – | – | 314 |
| | 664 095 | Intercoming and international calls, transmission, lease of company premises for affiliates | | | | | | |
| | | | 780 291 | 743 862 | 42 315 | – | 6 200 | 314 |
| **Debit balance included in other debit balances - long term** | | | | | | | | |
| - Consortium Algerien de Telecommunications (CAT) | – | Paid on behalf of subsidiary to finance operating expenses | 148 436 | 3 129 | 366 892 | – | 221 585 | – |
| **Debit balances included in debtors and other debit accounts** | | | | | | | | |
| - International Telecommunication Consortium Limited (ITCL) | | | – | – | 68 | – | 68 | – |
| **Credit balance included in creditors an other credit accounts** | | | | | | | | |
| - Nile On Line (NOL) | 4 865 | Internet services | 6 247 | 4 865 | – | 1 232 | – | 2 614 |

## 37- FINANCIAL INSTRUMENTS FAIR VALUE

The financial instruments are represented in the balance of cash on hand and at banks, debtors, creditors, investments and loans. The fair value of the long-term loans cannot be determined as there is no market for these loans since the majority of these loans are preferred loans granted by the government or International Aid Organizations and Institutions.

The book value of other financial instruments represents a reasonable assessment of their fair value.

## 38- MANAGEMENT OF FINANCIAL RISK

### 38.1 Interest risk

Interest rate risk is represented in the changes in the interest rate computed on the company's debts such as loans, bonds, bank overdrafts and credit facilities which amounted to LE 7 489 248 K as at December 31, 2006. (compared to LE 4 788 843K as at December 31, 2005). Financing interests and expenses related to these balances amounted to LE 393 082 K during the year (compared to LE 381 388 K during the previous year), while the balance of time deposits amounted to LE 491 798 K as at December 31, 2006 (compared to LE 668 147 K as at December 31, 2005), and the interest income on these deposits amounted to LE 48 633 K during the year (LE 27 980 K during the previous year). In order to minimize these risks, the company's management currently seeks to obtain the best possible terms and conditions from the banks as regards the balances of credit facilities, overdrafts and loans, also, it reviews the prevailing interest rates declared by the banks on a regular basis, a matter which help mitigate the interest rate risk.

### 38.2 Credit risk

This risk is represented in the clients and debtors' inability to pay their outstanding balances. In order to mitigate the said risk, the company suspends services for delinquent customers and imposes fines on late payments followed by cutting off lines then contract termination.

### 38.3 Foreign currency risk

The foreign currency exchange risk represents the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows as well as the value of its foreign currency assets and liabilities. As of the date of the consolidated balance sheet the company has foreign currency assets and liabilities equivalent to LE 1 562 772 K and LE 2 059 098 K respectively. The company's net exposure in foreign currencies at the financial position is as follows: -

| Foreign currencies | Surplus/ (Deficit) (000) |
|---|---|
| U.S. dollars | 107 711 |
| Euro | (130 783) |
| Sterling Pound | 355 |
| Japanese Yen | (2 432 914) |
| Swedish krona | (15 724) |
| Jordan Dinar | 329 |
| Emirate Dirham | 134 |

As disclosed in note (3-2) "Foreign Currency Translation" the company has used the exchange rates declared by the banks that the company deals with to retranslate monetary assets and liabilities at the financial position date.

## 39- COMPARATIVE FIGURES

Certain comparative figures were reclassified to confirm the current classification of these consolidated financial statements. The significant restatements related to the investment increase in affiliates – Vodafone Egypt, as well as the increase in income from investments and net profit for the year by the company's share in the operating result of the investee's due to applying the equity method instead of the cost method, hence the company's management decided to held the investment and not to dispose them in the near future.